

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

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R 312210Z AUG 76

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 1159

AMEMBASSY BOGOTA

AMEMBASSY BRASILIA

AMEMBASSY BUENOS AIRES

AMEMBASSY CARACAS

AMEMBASSY LA PAZ

AMEMBASSY LIMA

AMEMBASSY QUITO

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EO 11652: N/A

TAGS: EFIN, CI

SUBJECT: ANDEAN PACT: DOMESTIC OPPOSITION TO GOC ANDEAN PACT
POLICIES

REF: SANTIAGO 2411

1. SUMMARY. AGAINST A BACKGROUND OF PUBLIC AWARENESS OF
CONFRONTATION BETWEEN CHILE AND OTHER MEMBER GOVERNMENTS OF
ANDEAN PACT, BBTH GOC AND ITS DOMESTIC CRITICS HAVE RESORTED
TO THE PRESS TO EXPLAIN THEIR POSITIONS. FORMER PRESIDENT
(1964-70) EDUARDO FREI IN A LETTER TO "EL MERCURIO" AUGUST
28 TOOK THE POSITION THAT CHILE SHOULD REMAIN IN THE ANDEAN
PACT UNDER GROUND RULES ENDORSED BY OTHER MEMBERS. FREI
ECHOED THE MISGIVINGS OF THOSE BUSINESS ELEMENTS WHO ARE BY
NO MEANS CONVINCED THAT CHILE SHOULD THROW ITS DOMESTIC MARKET
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(AND THEIR OWN LIVELIHOODS) OPEN TO MORE EFFICIENT NON-ANDEAN

COMPETITION GOC TAKES POSITION THAT ONLY RADICAL REVISION OF PACT DECISION 24, REGULATING FOREIGN INVESTMENT, CAN PRODUCE 7 PERCENT ANNUAL GROWTH RATE NEEDED FOR DEVELOPMENT, WHILE LOW COMMON EXTERNAL TARIFF IS REQUIRED TO STIMULATE EFFICIENCY AND COMPETITION IN LOCAL INDUSTRY AND TO COMBAT INFLATION. EMBASSY EXPECTS GOC EDUCATIONAL COUNTER-CAMPAIGN TO INTENSIFY IN COMING WEEKS. NOT CLEAR WHETHER GOVERNMENT'S OBJECTIVE IS TO EXTRACT BETTER BARGAIN FROM OTHER FIVE PACT MEMBERS, OR REALLY TO REGAIN FREEDOM OF ACTION FOR CHILE, EVEN AT COST OF GREATER ISOLATION. MEANWHILE, HIGH-LEVEL CONTACTS WITH ARGENTINA ARE BEING PLANNED. END SUMMARY.

2. FREI'S LETTER CONTAINED THE FOLLOWING POINTS:

A. A REVIEW OF THE RATIONALE FOR THE PACT (WITH PROMINENT MENTION OF FREI'S OWN PACT IN ITS ORIGIN IN 1965).

B. A RECITAL OF THE THEORETICAL ADVANTAGES OF AN ENLARGED "INTERNAL" MARKET IN WHICH INDUSTRY IS PROTECTED ON AN "INFANT INDUSTRY" BASIS.

C. THE POSITIVE FEATURES OF DECISION 24: FOREIGN INVESTORS HAVE CLEARLY Delineated RULES OF PLAY, AMPLE OPPORTUNITY FOR "SERIOUS" INVESTORS TO EARN AND REPATRIATE PROFITS. DECISION 24 HAS NOT DETERRED FOREIGN INVESTMENT IN OTHER ANDEAN PACT COUNTRIES.

D. HIS AGREEMENT WITH THE DECLARATION OF BOYACA, WHICH HE BELIEVES CONTAINS REASONABLE COMPROMISES BOTH ON DECISION 24 AND ON THE COMMON EXTERNAL TARIFF QUESTIONS.

E. CHILE'S MEMBERSHIP IN THE ANDEAN PACT HAS HARDLY KEPT TRADE RELATIONS WITH ARGENTINA, BRAZIL OR THE US FROM DEVELOPING, AS SOME CLAIMED IT WOULD.

F. THE GOC'S ARGUMENT THAT LOWER TARIFFS BRING LOWER PRICES WHICH "FAVOR THE CONSUMER" IGNORES THE FACT THAT CONSUMERS MUST HAVE JOBS AND INCOME IN ORDER TO HAVE THE WHEREWITHAL TO CONSUME. THE INDUSTRIAL DEVELOPMENT PROGRAMS OF THE ANDEAN PACT, BY STIMULATING EMPLOYMENT, WOULD CREATE EFFECTIVE LIMITED OFFICIAL USE

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CONSUMERS, EVEN IF PRICES WERE SOMEWHAT HIGHER.

G. TO LEAVE THE PACT NOW WOULD HEIGHTEN CHILE'S ISOLATION, WITH ADVERSE POLITICAL CONSEQUENCES.

3. FREI'S LETTER CONCLUDED WITH THE GENTLE REMINDER THAT IF CHILE WITHDREW FROM THE PACT AND THEN WANTED TO RETURN, ITS SITUATION WOULD BE MUCH MORE DIFFICULT. MOREOVER, A

DECISION TO WITHDRAW SHOULD BE PONDERED CAREFULLY; IT IS NOT ONLY A TECHNICAL-ECONOMIC MATTER, BUT A POLITICAL DECISION OF MAJOR IMPORTANCE. COMMENT: FREI LETTERS TO THE EDITOR ARE RARE. IN THIS INSTANCE, HE (1) ACCUSES THE GOVERNMENT OF MOVING TOWARD A MAJOR NATIONAL DECISION WITH NO CONSULTATION OUTSIDE THE EXECUTIVE BRANCH; (2) ESTABLISHES HIMSELF AS THE ONLY PUBLIC INTERLOCUTOR THUS FAR IN A DIALOGUE WITH THE GOC; AND (3) SPEAKS FOR THE MINOR INDUSTRIALIST -- AND THE PEOPLE EMPLOYED BY HIM -- WHOSE SMALL, INEFFICIENT PRODUCTION NEEDS THE PROTECTION AFFORDED BY THE PACT. ON THESE GROUNDS FREI'S POSITION WILL HAVE SOME SUPPORT IN THE COUNTRY. END COMMENT.

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4. FREI'S DISSENT MAY WELL ATTRACT A GOOD DEAL OF SUPORT FROM BANKERS AND INDUSTRIALISTS TO WHOM COMPETITION FROM FOREIGN CAPITAL AND RELATIVELY LOW-PRICED IMPORTS POSE A CONSIDERABLE THREAT. EMBASSY HAS BEEN RECEIVING SIGNALS FROM A NUMBER OF SOURCES

WITHIN THE FINANCIAL AND BUSINESS COMMUNITY THAT THE GOC POSITION IN THE ANDEA PACT IS FAR FROM UNIVERSALLY SUPPORTED. GOC REPRESENTATIVE

TO ANDEAN PACT, ADELIO PIPINO, RECENTLY TOLD A VISITING AMERICAN ACADEMICIAN THAT "TIME IS RUNNING AGAINST US," IMPLYING, THAT THE GOC HOPES TO GET A VERY SUBSTANTIAL REVISION OF DECISION 24 AND THE PACT'S ARRANGMENTS OR TO LEAVE THE PACT BEFORE GROWING CHILEAN DOMESTIC OPPOSITION ERODES ITS ABILITY TO DO EITHER.

5. MEANWHILE, THE GOC "EDUCATION" CAMPAIGN IS IN FULL SWING. BOTH GOVERNMENT AND PROMINENT PRIVATE SECTOR OFFICIALS PARTICIPATED IN A DAY-LONG SEMINAR ON ANDEAN PACT ON AUGUST 27 WHICH WAS WIDELY LIMITED OFFICIAL USE

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PUBLICIZED IN THE MEDIA. EMPHASIS WAS PLACED ON THE POSITIVE ELEMENTS OF THE GOC PROGRAM, INCLUDING A NEWLY ANNOUNCED GOAL OF SEVEN PERCENT ANNUAL GROWTH RATE. THIS, IT WAS NOTED, COULD NOT BE ACHIEVED THROUGH ENFORCED DOMESTIC SAVINGS, GIVEN THE INTOLERABLE HARDSHIP WHICH FURTHER RESTRICTION OF ALREADY-LOW CONSUMPTION LEVELS WOULD ENTAIL. HENCE, THE NECESSITY FOR FOREIGN INVESTMENT, TO WHICH ANDEAN PACT DECISION 24 IS PRESENTED AS A PRINCIPAL IMPEDIMENT.

6. GOC EMPHASIS ON RESTRICTIVE NATURE OF DECISION 24 CONTAINS SOME ELEMENTS OF SCAPEGOATING. FOREIGN INVESTMENT HAS NOT BEATEN THE PATH TO CHILE'S DOOR THAT GOC POLICY MAKERS HAD HOPED FOR. INDEED, AS PRESIDENT OF CONFEDERATION OF COMMERCE AND INDUSTRY MANUEL VALDES POINTED OUT IN THE SAME SEMINAR (AND REPEATED PRIVATELY TO EMBOFFS), FOREIGN INVESTMENT IN CHILE HAS ALSO BEEN DETERRED BY HIGH INFLATION, A SLOW-MOVING AND CONTENTIOUS BUREAUCRACY, AND CHILE'S ADVERSE WORLD IMAGE. THE ECONOMIC TEAM CONTINUES TO GIVE PUBLIC EMPHASIS TO THE MORE "NATURAL" TRADING RELATIONSHIPS EXISTING WITH ARGENTINA, URUGUAY AND BRAZIL -- RELATIONS WHICH IT SAYS TODAY ARE FAR MORE IMPORTANT THAN THOSE WITH THE PACT COUNTRIES. THE GOC GOSPEL IS THAT CHILE WILL BE BETTER OFF WITH MORE ADVANCED TRADING PARTNERS THAN WITH LESS ADVANCED, WITH GREATER PROSPECTS FOR PROFITABLE TRADE DEVELOPMENT. MANUEL VALDES HAS TOLD US THAT CENTRAL BANK PRESIDENT PABLO BARAONA PLANS TO VISIT BUENOS AIRES TO DISCUSS THE POSSIBILITY OF SOME VOLUNTARY GOA RESTRAINTS ON SUCH ARGENTINE EXPORTS AS TEXTILES, WINE, SHOES WHICH THREATEN HIGHER-COST CHILEAN PRODUCERS. WITHOUT SOME SUCH RESTRICTIONS, CHILE'S INEFFICIENT INDUSTRIES COULD BE OVERWHELMED.

7. MEANWHILE, GOC IS FEATURING AN IMPENDING SERIES OF VISITS BY HIGH-LEVEL OFFICIALS TO BUENOS AIRES, FOR VARIOUS PURPOSES. FONMIN CARVAJAL LEAVES LATER THIS WEEK, PURPORTEDLY TO DISCUSS A LATER MEETING BETWEEN PINOCHET AND VIDELA, AS WELL AS TRANSPORTATION LINKS BETWEEN THE TWO COUNTRIES AND CERTAIN OTHER UNSPECIFIED MATTERS. HE WILL BE ACCOMPANIED BY TOMAS LACKINGTON, SENIOR

ECONOMIC ADVISER TO THE FONOFF AND OTHERS. WE UNDERSTAND THAT SHORTLY THEREAFTER, MINISTER OF ECONOMY SERGIO DE CASTRO WILL BE VISITING BUENOS AIRES WITH A TEAM OF ADVISERS. AS PRESENTLY ENVISAGED, PRIVATE SECTOR IS NOT REPRESENTED IN EITHER MISSION.

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8. GOC IS PLAYING ITS CARDS VERY CLOSELY. AS MATTERS NOW STAND, WE CANNOT BE CERTAIN WHETHER THE ARGENTINE-BRAZILIAN-URUGUAYAN PLOY REPRESENTS PSYCHOLOGICAL WARFARE DESIGNED TO WEAR DOWN THE RESISTANCE OF OTHER ANDEAN PACT MEMBERS TO GREATER CHANGES IN DECISION 24 AND THE COMMON EXTERNAL TARIFF ARRANGEMENTS, OR WHETHER THE CHILEANS REALLY BELIEVE THAT THEIR ECONOMIC FUTURE DEPENDS ON EAST-WEST RATHER THAN NORTH-SOUTH RELATIONSHIPS IN LATIN AMERICA. IT SEEMS DIFFICULT TO BELIEVE THAT, HAVING LOST SO MANY FRIENDS IN THE INTERNATIONAL ARENA, THE CHILEANS WOULD BE WILLING TO BREAK THEIR TIES WITH THEIR FIVE ANDEAN PACT ASSOCIATES. BUT WE WOULD NOT PUT IT PAST THE JUNTA TO DO PRECISELY THAT.
POPPER

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